

TESTIMONY OF A. R. WATTS**FOR****THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA****DOCKET NO. 2004-3-E****IN RE: DUKE POWER****Annual Review of Base Rates for Fuel Costs**

Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION?

A. A. R. Watts, 101 Executive Center Drive, Columbia, South Carolina. I am employed by The Public Service Commission of South Carolina, Utilities Department, as Chief of Electric.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of South Carolina in Columbia in 1976. I was employed at that time by this Commission as a Utilities Engineer in the Electric Department and was promoted to Chief of the Electric Department in August 1981. I have been in my current position since October 1999. I have testified before this Commission in conjunction with fuel clause, complaint, territorial assignment, siting, and general rate proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize Staff's findings as set forth in the Utilities Department's portion of the Staff Report.

Q. WHAT SPECIFIC AREAS WERE ENCOMPASSED BY STAFF'S EXAMINATION?

1 A. The Utilities Department's examination of the Company's fuel operations consisted,
2 in part, of a review of the Company's monthly operating reports, review of the
3 currently approved Adjustment For Fuel Costs tariff, and review of the Company's
4 short-term projections of kilowatt-hour sales and fuel costs.

5 **Q. DID STAFF EXAMINE THE COMPANY'S PLANT OPERATIONS FOR**
6 **THE PERIOD?**

7 A. Yes, we reviewed the Company's operation of its generating facilities, including
8 special attention to the nuclear plant operations, to determine if the Company made
9 every reasonable effort to minimize fuel costs.

10 **Q. HAVE YOU DETERMINED THAT ANY SITUATIONS WARRANT**
11 **DETERMINATION THAT THE COMPANY HAS ACTED**
12 **UNREASONABLY IN OPERATING ITS FACILITIES AND THEREBY**
13 **CAUSING ITS CUSTOMERS TO BE SUBJECT TO PAYING HIGHER**
14 **FUEL COSTS?**

15 A. No, the Company's generating facilities operated well during the period under
16 review. The actual average nuclear system capacity factor was 89.66%, which
17 included five full or partial refueling outages and replacement of the Reactor Vessel
18 Heads at the three Oconee Units as well as replacing the Steam Generators at two of
19 these Units during the review period. The major fossil units averaged over 90%
20 availability for the majority of the period under review. As shown on Utilities
21 Department Exhibit No. 1, major activities included were upgrades to the controls
22 and installation of Selective Catalytic Reduction systems at both Belews Units 1 and
23 2.

24 **Q. WOULD YOU BRIEFLY EXPLAIN THE REMAINING UTILITIES**
25 **DEPARTMENT'S EXHIBITS?**

26 A. Yes. Exhibit No. 2 shows the Company's Major Plant Outages for the months of
27 April 2003 through March 2004, listing the plants by unit, duration of the outage,
28 reason for the outage, and corrective action taken. Exhibit No. 3 lists the Company's
29 percentage Generation Mix by fossil, nuclear, and hydro for the period April 2003
30 through March 2004. Exhibit No. 4 reflects the Company's major plants by

1 name, type of fuel used, average fuel cost in cents per KWH to operate, and total
2 megawatt-hours generated for the twelve months ending March 2004. Exhibit
3 No. 5 shows a comparison of the Company's original retail megawatt-hour estimated
4 sales to the actual sales for the period under review. Exhibit No. 6 shows the data
5 from Exhibit No. 5 in graphical form. Exhibit No. 7 is a comparison of the original
6 fuel factor projections to the factors actually experienced for the twelve months
7 ending March 2004. Exhibit No. 8 is a graphical representation of the data in
8 Exhibit No. 7. Exhibit No. 9 is the Company's currently approved retail
9 Adjustment For Fuel Costs tariff. Exhibit No. 10 is a history of the cumulative
10 recovery account. Exhibit No. 11 is a table of estimates for the cumulative recovery
11 account balance for various base level fuel factors for the period ending May
12 2005.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 **A.** Yes, it does.